

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6946

Investigation into the existing rates of Central
Vermont Public Service Corporation

AND

Docket No. 6988

Tariff filing of Central Vermont Public Service
Corporation requesting a 5.01% increase in its
rates, effective August 29, 2004, for
implementation as of April 1, 2005

PREFILED TESTIMONY OF
DAVID F. LAMONT
ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE

October 1, 2004

Summary: The purpose of Mr. Lamont's testimony is present adjustments to CV's power
cost projections in these cases.

Prefiled Testimony
of
David F. Lamont

1 Q. Please state your name and occupation.

2 A. My name is David F. Lamont, and I am a Power Supply Planner for the Vermont
3 Department of Public Service ("Department" or "DPS"). My business address is 112
4 State Street, Montpelier, Vermont.

5 Q. Please summarize your professional background and experience.

6 A. I have worked for the Department since 1986 in various capacities, both as a DSM
7 analyst and in my present position as a Power Supply Planner. Prior to that, I worked for
8 the Vermont State Energy Office where I was involved in numerous energy efficiency
9 programs and in reviewing the energy efficiency of new construction under Act 250.

10 Q. Have you ever testified before the Vermont Public Service Board before?

11 A. I have testified in Docket Nos. 5270, 5329, 5370, 5428, 5483, 5491, 5533,
12 5630/5632, 5656, 5695, 5810/5811/5812, 5823, 5828, 5857, 5859, 5863, 5983, 6043,
13 6107, 6545 and others as well as before the District Environmental Commissions and the
14 Environmental Board in numerous Act 250 cases.

15 Q. What is the purpose of your testimony?

16 A. I will be discussing CVPS's power cost calculations and proposing adjustments to them.

17 Q. Please describe your proposed adjustments to CVPS' cost of service for Rate Year 1.

18 A. Following is a list of the adjustments I propose to make. I will discuss each
19 individually.

1.	Market Price Increase	-1,256,776
2.	VY Equivalent Forced Outage Rate ("EFOR")	145,468
3.	Vermont Yankee transformer fire	318,000

In describing these adjustments, a positive number represents a decrease in revenue requirements and a negative number represents an increase in revenue requirements.

Q. Please describe your proposed adjustments to CVPS' cost of service for Rate Year 2.

A. Following is a list of the adjustments I propose to make. I will discuss each individually.

1.	Market Price Increase	4,083,051
2.	Vermont Yankee EFOR	213,109
3.	HQ Undeliverables	
4.	VELCO (known and measurable)	1,230,000

Additionally, I propose two adjustments to the rate base deferral amounts claimed by CVPS.

1.	2002 Mid-Cycle Outage ("MCO")	\$629,023
2.	2004 VY Transformer Fire	Remove entirely

Q. Please discuss the adjustment attributable to the change in market prices.

A. CV has a surplus of committed resources and sells its excess into the New England market during most hours of the year. Because CV is a net seller of energy, increases in the wholesale price cause an increase in CV's revenues, and conversely, a decrease in market prices results in a decrease in CV's revenues. Since CV filed their

1 rate case, projected energy prices have decreased in the months where we have actual data
2 and have also decreased for most of the forecast months. This will have two effects on
3 CV's power costs. As discussed above, CV's resales of its surplus will decrease in value
4 in Rate Year 1. Additionally, CV's dispatchable resources, mostly the McNeil plant, will
5 dispatch less frequently, further constraining resales. Using an updated market price in
6 the CV power cost model yields a increase in revenue requirements for Rate Year 1 of
7 just over \$1 million.

8 The opposite is true for Rate Year 2. In Rate Year 2, price expectations have risen
9 by about \$5.00/MWh in most months of the rate year. CV's resales of its surplus will
10 increase in value. Additionally, CV's dispatchable resources, mostly the McNeil plant,
11 will dispatch more frequently, creating additional resales opportunities. Using the same
12 updated market price in the CV power cost model yields a decrease in revenue
13 requirements for Rate Year 2 of just over \$4 million.

14 Q. How did you prepare your updated market price forecast?

15 A. I used CV's model and updated the inputs to reflect today's price expectations.
16 CV's model uses a combination of New England based electric forward prices and
17 NYMEX gas forward prices, adjusted for delivery in New England. Using the same, but
18 more current, sources that CV used produces the results described above.

19 Q. Please describe the Vermont Yankee forced outage rate (EFOR) adjustment.

20 A. In calculating the EFOR for Vermont Yankee, CV used a four year average. The
21 EFOR for each year was computed by dividing the actual output from VY by the
22 potential output or 100% capacity factor output. In years with a refueling outage, those
23 hours are excluded from the potential output calculation. CV's calculated value was
24 3.4%, but it used only 3.1% in its filing.

1 Included in this EFOR calculation was the spring 2002 MCO outage for which
2 CV is requesting special accounting and ratemaking treatment. Including these hours in
3 the forced outage calculation is essentially double counting. CV is being compensated for
4 this outage through the deferrals. It should not be further compensated by an additional
5 adjustment in the VY EFOR. Further, if this is truly an extraordinary event, as CV
6 contends, then it is not likely to recur and should not be included in future rates.
7 Eliminating those hours for which CV is asking for deferred treatment results in a four
8 year average EFOR of 2.12%. Using this in CV's model increases the expected energy
9 deliveries from VY. CV can make a profit by selling this energy in the market or using it
10 to forego the purchase of more expensive supplies - resulting in a decrease in revenue
11 requirement of \$114,000 in Rate Year 1 and a decrease in revenue requirement of
12 \$213,109 in Rate Year 2.

13 Q. Please discuss the Vermont Yankee transformer fire and its impacts of Rate Year 1 cost
14 of Service.

15 A. In its Rate Year 1 cost of service, CV includes the loss of production resulting from the
16 June 2004 transformer fire at Vermont Yankee. CV received an accounting order from
17 the Board which allowed it to book and defer the additional expenses from this outage.
18 However, the DPS believes that this outage was a result of activities undertaken by
19 Entergy in preparation for the uprate of the plant. Therefore, CV should seek to collect
20 most of the excess costs from Entergy Nuclear under the terms of the Uprate MOU.
21 Under the terms of the MOU, there are limits on the payments which can be made from
22 that fund over a given time period. Further, some of the limit of the MWh covered by the
23 ratepayer protection plan is being used to cover the deficient production as a result of the
24 newly installed turbine. The new turbine is sized for the uprate condition, but since it is
25 operating on low rate steam power, it is less efficient. The Department believes the CV
26 should be able to immediately collect from Entergy two thirds of the limit of \$467,000, or

1 \$318,000 for this incident and has reduced Rate Year 1 costs accordingly. The
2 Department also believes that CV will eventually be able to collect a significant part of
3 the remaining costs from Entergy. Since, by allowing CV to include most of the outage
4 costs in its rate year 1 calculations, they will have collected the outage costs (minus
5 \$318,000), CV should be required to set up a deferred credit account so that monies
6 collected from Entergy can eventually be credited back to ratepayers.

7 Q. What is the HQ undeliverables adjustment?

8 A. CV schedules its energy deliveries under the VJO contract. (They are not bid into
9 the market and dispatched, but are prescheduled and treated as must run by the pool.) On
10 occasion, conditions on the transmission system can create a situation where the entire
11 scheduled amounts cannot be delivered. Incidents of undeliverable energy have increased
12 since the expiration of the New England HQ contract. Deliveries under this contract were
13 primarily over Phase I&II transmission line, so that now there frequently is not enough
14 energy scheduled to flow over that facility to make it run. I believe it needs 200 MW to
15 operate. When insufficient flows are scheduled, nothing is able to flow and undeliverable
16 energy results. There are other situations which can result in undeliverable energy as
17 well. There are several types of undeliverable energy, and, depending on the nature of the
18 problem, the energy may or may not get rescheduled. In their filing, CV assumed that
19 none of this energy would be rescheduled. However, for several types, CV has the option
20 of rescheduling the energy or settling financially with HQ. Although I expect this
21 adjustment to be small, it should be reflected in CV's cost of service.

22 Q. Please discuss your proposed adjustments to the projected increase in VELCO rates
23 proposed by VELCO witness Spring.

24 A. In my opinion, many of the projects and activities described by Witness Spring
25 and proposed for inclusion in rates by CVPS do not meet the known and measurable test.

1 Q. Please explain which projects, in your opinion, do not meet the known and measurable
2 test.

3 A. As shown in Exhibit CVPS GFS-1, the 2006 VELCO budget includes costs for
4 the NRP project, the East Avenue project, the Stowe project and "others". The Board is
5 well aware of the schedule of the NRP project (Docket 6460). Not only is it a very
6 controversial project, but, as of this filing, it has not received a permit from the Board.
7 The Stowe and the East Avenue projects may be filed soon, but they are a long way from
8 approval and possible construction.

9 Q. Do you have any other adjustments to make to the amount of the VELCO budget CV
10 should collect in its rates?

11 A. Yes. VELCO has included in its 2006 budget an amount of 2.475 million as a one
12 time adjustment to its depreciation schedules to reflect a change to a straight line
13 depreciation system. VELCO has been advised by its auditors to do this and they are
14 planning to do it in 2006. However, this change would require an amendment to the 1991
15 agreement and approval from FERC for such a change. VELCO has not yet submitted
16 this request to FERC. Therefore, in my opinion, this does not meet the known and
17 measurable test either.

18 Q. What adjustments have you made to the VELCO budget.

19 A. I have removed all amounts pertaining to the projects discussed above and also
20 removed the depreciation adjustment. I then put these revised VELCO budget figures
21 into CV's transmission cost spreadsheet. The result is a reduction of \$1,230,000 in
22 anticipated VELCO costs in Rate Year 2.

23 Q. Please discuss the adjustment to CV's deferral requests.

1 A. CV has requested deferral of energy costs arising from the 2002 Vermont Yankee
2 outage caused by fuel rod defects. I am proposing a reduction in the amount of the
3 deferral by just over \$600,000 based on the superior performance of the plant relative to
4 what was included in rates throughout 2002.

5 Q. Please explain.

6 A. In Docket 6460, CV's last rate case, anticipated production from Vermont Yankee
7 was based on a 4% EFOR. Actual production in 2002 from Vermont Yankee was
8 significantly above that target throughout 2002 - except in the months for which CV is
9 requesting deferral of these charges (and in October where there was a refueling outage).
10 This additional production was essentially free energy to CVPS, since no additional fuel
11 was required to generate it. If we look at the entire annual production from VY, the
12 value of this excess production above a 96% availability rate is \$600,000. Exhibit DPS-
13 DFL-1 shows the monthly output and valuation of the extra energy. I believe it is
14 reasonable to take this longer-term look at the performance of Vermont Yankee in
15 determining an appropriate amount for deferral.

16 Q. Please explain your deduction for the 2004 Vermont Yankee transformer fire.

17 A. As discussed above, CV has included the costs resulting from the transformer fire
18 in its Rate Year 1 calculations. It cannot also propose these costs for deferral. As a
19 result, the Department has eliminated the entire amount of this deferral item from CV's
20 Rate Year 2 rates. As stated above, the Department recommends setting up a deferred
21 credit account to allow the ratepayers to ultimately receive any settlement from Entergy.

22 Q. Do you have any comments regarding the CVEC sale?

23 A. Yes. DPS Witness Schultz discusses the \$6.649 million dollar windfall received
24 by CV shareholders as a result of the timing of the accounting for the CVEC sale. I

1 would only point out here that, as shown in my adjustments for Rate Years 1 and 2,
2 anticipated power costs have risen since the filing of CV's direct case. As power costs
3 rise, stranded costs fall and, absent some method for ratepayers to recoup this money, it
4 will fall to CV's shareholders, as described by Witness Schultz.

5 Q. Does that conclude your testimony?

6 A. Yes.